



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 20, 2008

Ms. Melissa Jones, Executive Director
California Energy Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

Dear Ms. Jones:

Final Report—California Energy Commission, Renewable Resource Trust Fund Financial Statement Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial statement audit of the California Energy Commission (Commission), Renewable Resource Trust Fund for the fiscal year ended June 30, 2007.

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final. It is our understanding that the Commission will transmit this report to the Legislature by March 1, 2008.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Richard R. Sierra, Manager, or Osman Sanneh, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Mark Hutchison, Manager, Renewable Energy Office, California Energy Commission
Ms. Susan Aronhalt, Chief Budget Officer, California Energy Commission
Mr. Mark Jones, Accounting Administrator, California Energy Commission
Ms. Sherri Guzman, Associate Management Auditor, California Energy Commission

A F_{INANCIAL} S_{TATEMENT} A_{UDIT}

California Energy Commission
Renewable Resource Trust Fund
For the Fiscal Year Ended
June 30, 2007

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with Public Resources Code Section 25751(g). The audit includes an opinion on the *Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year ended June 30, 2007.

The financial audit objectives were to:

- Express an opinion on the financial statements based on our audit conducted in accordance with standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- As necessary, report on internal control over financial reporting weaknesses, as well as noncompliance with applicable laws and regulations, and provide recommendations for improving controls over the Fund's operations.

This report is intended solely for the information and use of the California Energy Commission (Commission) and the Legislature, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited. Requests for copies should be made to the Commission.

STAFF:

Richard R. Sierra, CPA
Manager

Osman Sanneh, CPA
Supervisor

Alice Yip
Blanca Cornejo
Amy Dieng



INDEPENDENT AUDITOR'S REPORT

Ms. Melissa Jones, Executive Director
California Energy Commission
1516 Ninth Street, MS-39
Sacramento, CA 95814-5512

We have audited the accompanying *Balance Sheet* as of June 30, 2007, and the related *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year then ended. These financial statements are the responsibility of the California Energy Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by GAGAS. Both the audited entity and the Department of Finance (Finance), of which the Office of State Audits and Evaluations is a unit, are part of the State of California's Executive Branch, which GAGAS considers an impairment of independence. Also, as required by various statutes within the California Government Code, Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although Finance is statutorily obligated to perform these other activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained herein.

As discussed in Note 1, Definition of Reporting Entity, the financial statements of the Fund are intended to present the financial position and the changes in financial position of only that portion of the financial reporting entity of the Commission that is attributable to the transactions of the Fund. They do not purport to, and do not present the financial position of the State of California as of June 30, 2007, or the changes in its financial position.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2007, and the results of operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Generally Accepted Government Auditing Standards*.

This report is intended solely for the information and use of management, the Commission, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

David Botelho, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

February 8, 2008

BALANCE SHEET

**California Energy Commission
Renewable Resource Trust Fund
Balance Sheet
As of June 30, 2007**

Assets

Cash and Pooled Investments (Note 1)	\$ 582,638,884
Due From Other Funds or Appropriations (Note 2)	<u>5,821,830</u>
Total Assets	<u>\$ 588,460,714</u>

Liabilities and Fund Balance

Liabilities

Accounts Payable	\$ 28,941,689
Due to Other Funds or Appropriations (Note 2)	<u>396,371</u>
Total Liabilities	29,338,060

Fund Balance (Note 3)

Reserved For Encumbrances	128,257,622
Reserved for Unencumbered Balances of Continuing Appropriations	<u>430,865,032</u>
Total Fund Balance	<u>559,122,654</u>
Total Liabilities and Fund Balance	<u>\$ 588,460,714</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

**California Energy Commission
Renewable Resource Trust Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2007**

Revenues (Note 1)

Existing Technologies	\$ 21,521,316
New Technologies	73,982,110
Emerging Technologies	46,114,243
Consumer Side Incentives	2,145,714
SMIF Interest Income	20,525,583
Voluntary Contributions	<u>718</u>

Total Revenues 164,289,684

Expenditures (Note 1)

Existing Technologies	26,407,309
New Technologies	8,496,969
Emerging Technologies	101,405,690
Consumer Side Incentives	1,985,865
Administration Support	<u>5,283,377</u>

Total Expenditures 143,579,210

Other Financing Sources

Operating Transfers In (Note 5)	<u>147,506,415</u>
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Net Change in Fund Balance 168,216,889

Fund Balance, July 1, 2006 390,905,765

Fund Balance, June 30, 2007 \$ 559,122,654

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

California Energy Commission Renewable Resource Trust Fund For the Year Ended June 30, 2007

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

In 1996, the State of California restructured its electricity services industry through the enactment of Assembly Bill 1890, Chapter 854, Statutes of 1996. This was implemented to ensure that the transition to a competitive electricity market provided for the support and development of a sustainable industry for existing, new, and emerging renewable electricity generation technologies. Chapter 854 required California's three major investor-owned utilities (IOUs) to collect \$540 million from their ratepayers over a four-year period. The Renewable Resource Trust Fund (Fund) was created in the State Treasury by Senate Bill 90, Chapter 905, Statutes of 1997, to account for the sources and uses of the \$540 million. The California Energy Commission (Commission) is responsible for the administration and distribution of these moneys.

The Fund maintains accountability for four distinct renewable energy programs. Revenue and expenditures for these programs are presented discreetly in the financial statements in the following categories:

Program	Target Award Beneficiaries
Existing Technologies	Biomass, Waste Tire, Solar Thermal, Wind, Geothermal, Small Hydro, Digester Gas, Landfill Gas, and Municipal Solid Waste Technologies.
New Technologies	Newly developed renewable electricity generation technologies.
Emerging Renewables	Photovoltaic, Solar Thermal Electric, Fuel Cell technologies, and wind turbines under 30 kilowatts of rated electrical capacity.
Consumer Information and Market Support	Consumer information, education, outreach, and support for the Western Renewable Energy Generating Information Systems project.

Chapters 1050 and 1051, Statutes of 2000, extended the collection of funds for the period commencing January 1, 2002 and ending January 1, 2012. Specifically, Chapter 1051 requires California's three major IOUs to collect \$135 million annually from ratepayers for the ten-year period.

The financial statements present information of the financial activities of the Fund only, and do not represent all of the financial activities of the Commission taken as a whole, or of the State of California.

B. Basis of Presentation—Fund Accounting

The Fund is classified as a *Governmental Cost Fund* for State of California financial reporting purposes. *Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

The accounting policies of the Commission conform to the State Administrative Manual based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Commission management is responsible for exercising budgetary control to ensure that appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the PMIB to invest in the United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month-end.

F. Revenue

Revenues consist of the special levies or collections from California's three largest IOUs, (Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas and Electric) interest income earned on funds deposited in SMIF, and voluntary contributions from utility consumers. Miscellaneous revenues may also include receipts consisting primarily of unclaimed checks escheated to the Fund.

The specified amounts required to be paid to the Commission are required to be adjusted annually by March 31 of every year based on a rate equal to the lesser of the annual growth in electric commodity sales or inflation, as defined by the gross domestic product deflator.

For the period July 1, 2006 to June 30, 2007, the allocation is as follows:

Southern California Edison (SCE)	\$ 60,107,500
Pacific Gas and Electric (PG&E)	70,747,083
San Diego Gas and Electric (SDG&E)	<u>12,800,000</u>
Total	<u>\$ 143,654,583</u>

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

H. Retirement Plan

Regular employees of the Commission are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the annual single audit of the State of California, and to the CalPERS Comprehensive Annual Financial Report.

NOTE 2 Due To/From Other Funds or Appropriations

Due from other funds and due to other funds represent short-term interfund receivables and payables resulting from the time lag between the dates that goods and services are provided and received and the dates that payments between entities are made. Interest earned and accrued at June 30 on pooled money investments held in SMIF is reported as "Due from Other Funds." Amounts due to the clearing account in Fund 0465 (interfund reimbursements) are reported as "Due to Other Funds or Appropriations."

NOTE 3 Fund Balance

The term *fund balance* is defined as the excess of the assets of a fund over its liabilities. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balance that are legally segregated for specific uses.

Reserved for Encumbrances represents goods and services that are ordered, but not received, by the end of the fiscal year.

Reserved for Unencumbered Balances of Continuing Appropriations represents the unencumbered balances of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

NOTE 4 Internal Transfers and Reallocations

In accordance with AB 135, Chapter 867, Statutes of 2004, the Commission transferred \$60 million of program spending authority from the New Renewable Facilities program to the Emerging Renewables program to ensure the continuing operation of the Commission's solar rebate program. The transfer will be reimbursed from the future cash flows of the Emerging account to be collected from 2007 through 2011.

NOTE 5 Contingencies

On September 24, 2002, the Fund loaned \$150 million to the state's General Fund in accordance with Chapter 379 of the Budget Act which states:

The transfer made by this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this Fund are not adversely affected by the loan.

Government Code Section 16320 provides for the accounting and disposition of this loan.

In June 2007 the General Fund repaid \$131.8 million of the \$150 million outstanding loan plus \$15.7 million in accrued interest. The unpaid balance of the loan is \$18.2 million; however, because a specific repayment date has not been established there is no assurance that the loan will be repaid within a reasonable period of time. In accordance with Governmental Accounting Standards Board Statement Number 34, the loan balance continues to be treated as a transfer out. The Commission estimates the interest due on the remaining loan balance through June 30, 2007 is \$2.2 million.

NOTE 6 Subsequent Event

Effective January 1, 2008, Senate Bill 1036, Chapter 685, Statutes of 2007, terminates production incentives awarded prior to January 1, 2002 from the New Renewable Resources Account, except for funds encumbered for renewable energy projects that began generating electricity by January 1, 2007. The law further requires the Commission to transfer the remaining unencumbered funds in the New

Renewable Resources Account to the electrical corporations (serving customers subject to the renewable energy public goods charge) by March 1, 2008. The Commission is currently in the process of determining the dollar amounts of the expected transfers from the account.